State firms ride merger wave

Their stocks do better than U.S. barometers

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In a choppy first quarter for stocks, merger deals involving several home-grown corporate names lifted a group of Tennessee-based public companies to a better return than seen by the major U.S. stock barometers.

Capital Bancorp, retailer Dollar General and parking lot operator Central Parking were among the top performers statewide as the Bloomberg Tennessee Index gained 4.29 percent, besting a generally flat performance by the Dow Jones industrial average, S&P 500 and the Nasdaq composite index — all of which give investors a snapshot of how financial markets are faring nationally.

"When mergers and acquisitions are strong, it helps the general stock market," said Richard Peterson, director of capital markets at Thomson Financial, a research house. "People have more confidence, and they're probably bidding up pricing, trying to pick out the next takeover candidate."

On Thursday, for instance, options traders snapped up call options in Louisiana-Pacific Group, giving them the right to buy LP stock for $20 to $22.50 a share in coming weeks amid the latest speculation that the Nashville home building products company could be bought by private equity firms. The stock was trading around $20 a share on Friday.

"There's lots of M&A (mergers and acquisitions) and private equity money flowing around," analyst Steven Chercover with D.A. Davidson & Co. in Portland, Ore., said. "It's kind of like going to the horse track. You want to see who will win the next race."

Takeover effect was swift

The push higher for several Tennessee-based stocks came as they announced agreements to sell to larger players in their industries or to big private equity firms.

For instance, Capital Bancorp is trading 28 percent above levels before Renasant Bank of Tupelo, Miss., announced its deal to acquire the small Nashville-based bank.

But not everyone thinks highly of the merger boom that saw some $18.7 billion worth of deals involving Tennessee-based firms announced over the past three months.

"If anything, a lot of M&A activity and a strong stock market means things could be getting close to a peak," said David Trainer, president of New Constructs, a Nashville-based independent research firm.

Trainer believes two-thirds of all mergers and acquisitions are bad for investors, although they might be good for the investment bankers who cobble together the multimillion- or multibillion-dollar deals.

He said investors should be cautious, adding that the market has gotten ahead of itself by assuming that the "Goldilocks" economy (not too hot, not too cold, but just right) that has lasted longer than expected will continue.

"It's probably going to get worse, and the market is going to have a hard time digesting things."

Questions hound market

Among critical questions for the next few months is whether fallout from the subprime loan mess that has pressured the U.S. stock market in recent weeks will push the national economy into recession.

Stocks have been more volatile since Feb. 27, when the Dow had its biggest one-day plunge in more than five years. That 416-point drop started with a free fall in stocks in Shanghai, which sparked a wider global sell-off.

Meanwhile, jitters over subprime loans have led to a number of mortgage lenders closing their doors nationally amid rising home foreclosure rates and fears that more homebuyers nationally won't be able to pay what they owe.

The Middle Tennessee housing market hasn't been hurt nearly as much as many other parts of the country, though. Home prices and sales here have remained relatively stable.

Ed Clissold, senior global analyst with Ned Davis Research Inc. in Venice, Fla., said he doesn't see subprime problems causing a general economic collapse. The subprime market, geared to helping lower-income buyers get mortgages, is not a big enough part of the overall housing scene to do that, he said.

"The economy can withstand a slowdown in housing without falling into recession, but it will be much more difficult if oil remains near $70" a barrel, said Bruce Bittles, chief investment strategist with Robert W. Baird & Co. in Nashville. Oil was trading around $66 a barrel late last week.

Stocks generally have rebounded from their earlier tailspin as investors pin their hopes on the U.S. Federal Reserve cutting short-term interest rates if the economy seems to be weakening.

Don R. Hays, president of Brentwood-based money manager Hays Advisory, said that if leading economic indicators due out April 19 show a third consecutive month of decline, that could be viewed as a sign of an impending recession that would lead the Fed to cut rates during the next six months.

"If the Fed does that, we expect a huge gain of 20 percent (in stocks), but it has to be fed by the Fed," he said, adding that short-term interest rates now at 5.25 percent should be 4 percent within a year.

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